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Structural shifts on household deposits market during the shocks in Ukraine

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Abstract

The paper examines structural shifts in Ukraine's household deposit market under heightened economic and geopolitical instability during the past five-year period and identifies changes in the currency and maturity structure of household deposits and to assess their impact on the banking system. The methodological framework is based on statistical analysis and structural comparisons. The findings indicate an increased tendency of household deposits to shift toward foreign currency assets, accompanied by a rising level of dollarization. It is also demonstrated that during periods of heightened uncertainty the role of demand deposits accounts (DDA) becomes significantly stronger. In addition, depositors tend to reallocate funds in favor of state banks. Given the dominance of household deposits in bank funding, such behavior increases funding volatility and systemic risk.

Keywords: household deposits; deposit dollarization; deposit on demand; bank of foreign banking group; state bank; systemic risk.

Introduction

Under the negative influence of political, economic, and social factors, including the COVID-19 pandemic and the full-scale military invasion in Ukraine, the role of demand deposits among households has been increasing, while long-term time deposits continue to decline. This trend poses a threat to overall financial stability, creating conditions for a potential liquidity crisis, as declining assets and rising liabilities generate imbalances in the banking system. It should be noted that the economic importance of term deposits and their role in the banking system is reflected in their ability to:

- provide a stable funding base for lending to households and the corporate sector;
- reduce liquidity risk through predictable deposit maturities;
- mobilize temporarily idle funds from households and businesses for economic development;
- support the government's monetary policy and maintain the stability of the financial system.

In the current environment, term deposits and savings accounts have become primarily instruments for preserving personal funds rather than generating income, as returns are insufficiently attractive due to accelerated inflation, potential increases in household income taxation and military levies. In contrast, the volume of foreign currency deposits has remained relatively stable despite the depreciation of the national currency, reflecting households' efforts to protect their savings from devaluation.

The growth of short-term deposits amid economic and social uncertainty constitutes one of the main risks to the banking system, increasing liquidity risk and limiting banks' ability to lend to the national economy. At the same time, the current distribution of household deposits across banking groups shows a marked preference for banks with foreign capital over state-owned banks, reflecting changes in depositor confidence.

Literature overview

The problem of structural changes in bank funding and household deposit behavior during periods of economic shocks has been widely discussed in contemporary financial literature. Classical theoretical approaches to liquidity preference and bank stability emphasize that in times of heightened uncertainty households tend to reallocate their funds toward more liquid and safer assets. In particular, Brunnermeier M. and Oehmke M. argue that the shortening of funding maturities increases systemic vulnerability and may amplify financial instability, especially when banks rely heavily on short-term liabilities. Their concept of the «maturity rat race» explains how competition for liquidity can intensify systemic risk during crises [1, p. 2]. Recent empirical studies confirm that economic shocks significantly influence depositor behavior. Demirgüç-Kunt A., Pedraza A. and Ruiz-Ortega C. show that during the COVID-19 crisis banks experienced substantial shifts in funding structures, including changes in the maturity and composition of deposits. The authors highlight that uncertainty increases the demand for liquid instruments and affects banks' risk exposure [2, p. 16]. Similarly, Caglio C., Dlugosz J. and Rezende M. emphasize the phenomenon of «flight to safety», demonstrating that depositors tend to reallocate funds toward bank institutions perceived as more stable, particularly in the presence of deposit insurance guarantees [3, p. 18].

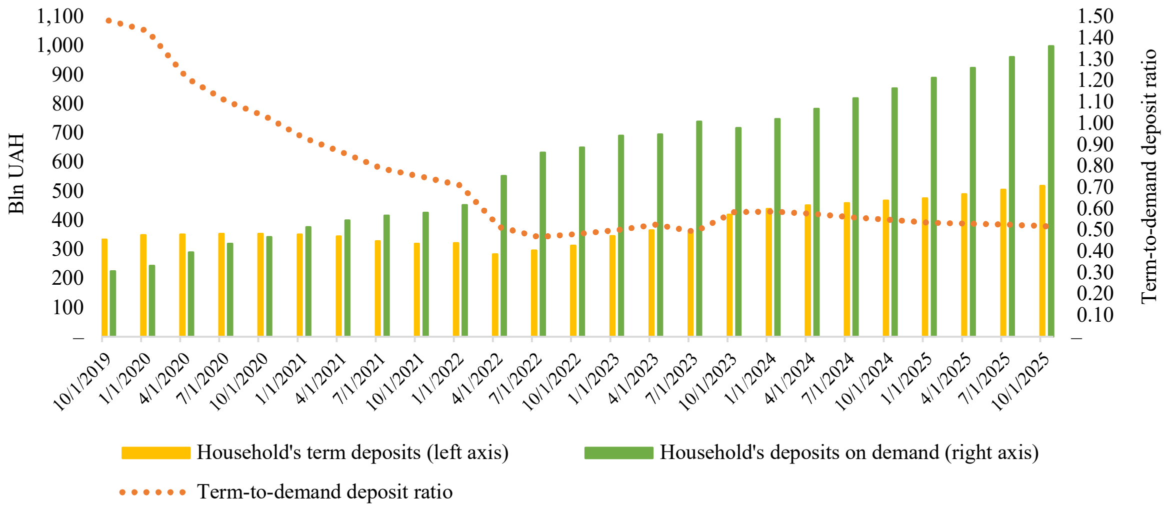
The important strand of literature examines «deposit dollarization» and «currency substitution», especially in emerging and post-socialist economies. Scheiber T., Wörz J. further demonstrate that deposit dollarization often exhibits strong persistence, even after macroeconomic stabilization, due to structural and behavioral factors [4, p.63-65]. These findings are particularly relevant for economies exposed to recurrent external shocks.

The role of bank ownership structure in maintaining financial stability during crises has also received considerable attention. Beck T., Ioannidou V. and colleagues find that state-owned banks may act as stabilizing agents in times of stress, supporting credit provision and preserving depositor confidence [5, p. 20]. This view is also supported by Servetnik I, Versal N., Prykaziuk N, and colleagues, once again confirming that during periods of deep crises, implicit state guarantees become a decisive factor in maintaining trust, which leads to a reallocation of funds toward state-owned banks [6, p.118-120].Overall, the existing literature suggests that economic and geopolitical shocks may lead to (1) a shift toward more liquid deposit instruments, (2) changes in the currency composition of household savings, and (3) redistribution of deposits among banking groups depending on perceived stability and institutional support. However, despite extensive international evidence, the specific patterns of structural shifts in the household deposit market under prolonged geopolitical shock remain insufficiently explored. Therefore, a detailed analysis of maturity, currency, and ownership-related redistribution of deposits in Ukraine constitutes the main focus of this study.

1. Analysis of Structural Shifts

For a comprehensive study of the household deposits market, it is important to analyze it by structural type, distinguishing between deposits on demand and term deposits. This distinction allows for assessing households' behavioral responses to economic and political shocks, particularly under conditions of financial market instability and crisis in Ukraine. Deposits on demand are characterized by high liquidity and immediate accessibility, making them sensitive to short-term changes in household income and sentiment. Term deposits involve a fixed placement period and generally offer higher interest rates, reflecting depositors' willingness to lock in funds for a specified time. Analyzing the dynamics of these two categories of deposits makes it possible to identify structural shifts in household behavior during economic shocks and to evaluate the extent to which changes in the macroeconomic environment have influenced households' preferences regarding liquidity and returns (figure 1).

Figure 1. Trends in household's deposits and the term-to-demand deposit ratio in Ukraine from October 2019 to October 2025



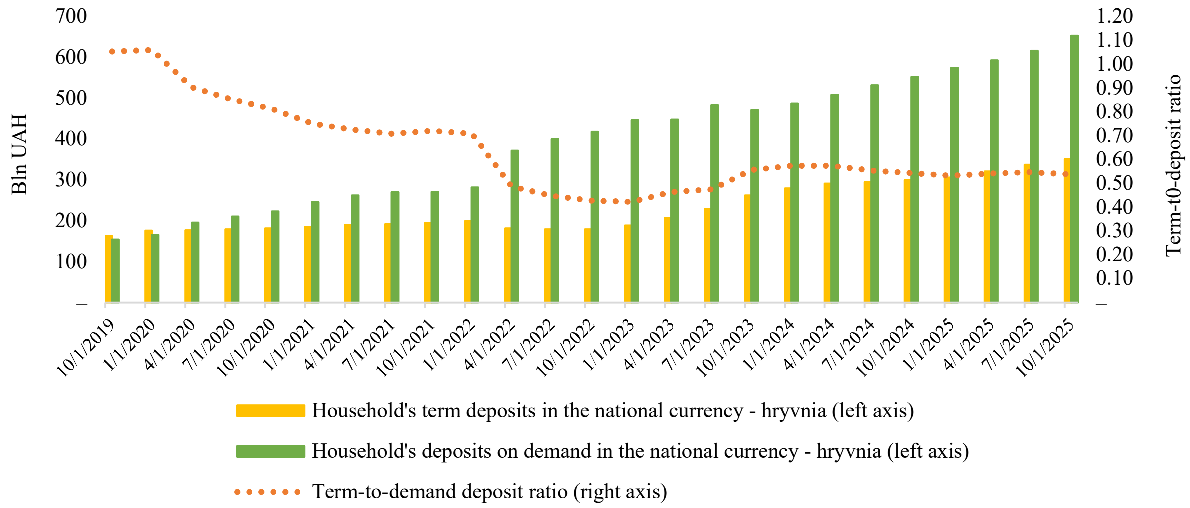
Source: compiled by the author based on data of National Bank of Ukraine [8].

It is observed that household term deposits remained relatively stable from 2019 until the beginning of 2022, with minor fluctuations. In contrast, deposits on demand exhibit a steady upward trend from early 2022. This shift corresponds to a sharp decline in the term-to-demand deposit ratio during the same period, reflecting an increasing preference of households for liquidity in the form of demand deposits. The trend suggests that during periods of economic shocks, households increasingly favor demand deposits over term deposits. This behavior indicates a reduced willingness to commit funds to long-term deposits, likely due to concerns about financial stability, inflationary pressures, and the need for readily accessible funds. This phenomenon is referred to by scholars as «flight to liquidity», denoting a shift toward liquid assets. It is the most commonly used term in finance to describe situations in which depositors or investors prefer readily accessible funds (e.g., deposits on demand) during shocks [7, p. 21].

2. Dollarization of household's deposits

During periods of economic and financial instability, depositors often exhibit a tendency to convert their savings from the national currency into foreign currency, a phenomenon referred to in the literature as «currency substitution» [9, p.27] or «deposit dollarization». This behavior reflects households' efforts to preserve the real value of their savings in the face of exchange rate volatility, inflationary pressures, or perceived risks to the stability of the domestic banking system. It should be noted that deposit dollarization is a typical response of depositors in post-Soviet countries [10, p.22]. Examining this effect provides the foundation for analyzing the dynamics of term deposits denominated in the national and foreign currencies.

Figure 2. Trends in household's UAH-denominated deposits and the term-to-demand deposit ratio in Ukraine from October 2019 to October 2025



Source: compiled by the author based on data of National Bank of Ukraine [8].

However, over the past five years Ukraine has demonstrated a notable phenomenon of sustained trust in banking institutions, despite significant economic shocks and geopolitical turbulence. As illustrated in the figure 2, deposits denominated in the national currency (hryvnia) continued to grow, with a decline observed only during the first two quarters of 2022.

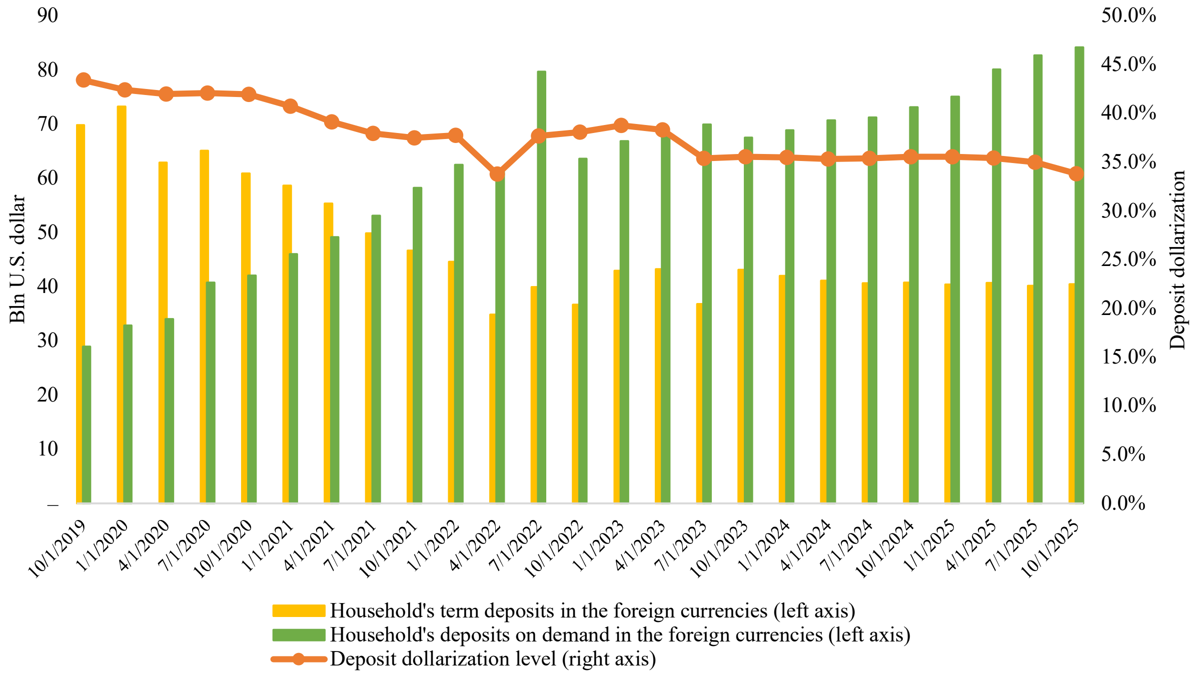
One of the key factors contributing to the increased confidence of depositors was the introduction of comprehensive state guarantees on household bank deposits at the very beginning of the full-scale invasion. In order to strengthen the banking system - particularly to ensure the continuity of household savings mobilization and the financing of economic activity - the Deposit Guarantee Fund of Ukraine, provided a 100% state guarantee on household deposits for the duration of martial law [11].

In addition, to maintain a sufficient level of hryvnia-denominated liabilities within the banking system, the exchange rate also was fixed and the key interest rate was significantly increased. These measures created favorable conditions for higher deposit interest rates, thereby supporting the attraction of household deposits on more attractive terms and reinforcing confidence in the national currency.

The analysis of deposits in the foreign currencies in Ukraine for the last five years should be conducted by currency denomination, given the high level of financial dollarization and significant exchange rate fluctuations, particularly during periods of sharp depreciation of the national currency. It is needed for a better understanding of structural shifts in currency preferences and their implications for bank funding. So, all deposit amounts are presented after conversion at the U.S. dollar exchange rate prevailing on the date for which the volumes are reported (figure 3).

Overall, the dynamics of household foreign-currency deposits in Ukraine reveal a complex interaction between currency preferences, liquidity considerations, and institutional factors during periods of heightened uncertainty. Despite persistent economic shocks and significant exchange rate volatility, the level of deposit dollarization did not increase proportionally to the growth of foreign-currency deposits, remaining relatively stable over most of the analyzed period. This indicates that the expansion of foreign-currency deposits was driven primarily by the accumulation of demand deposits rather than a renewed shift toward long-term foreign-currency savings.

Figure 3. Trends in household's foreign currency deposits and the level of deposit dollarization in Ukraine from October 2019 to October 2025



Source: compiled by the author based on data of National Bank of Ukraine [8].

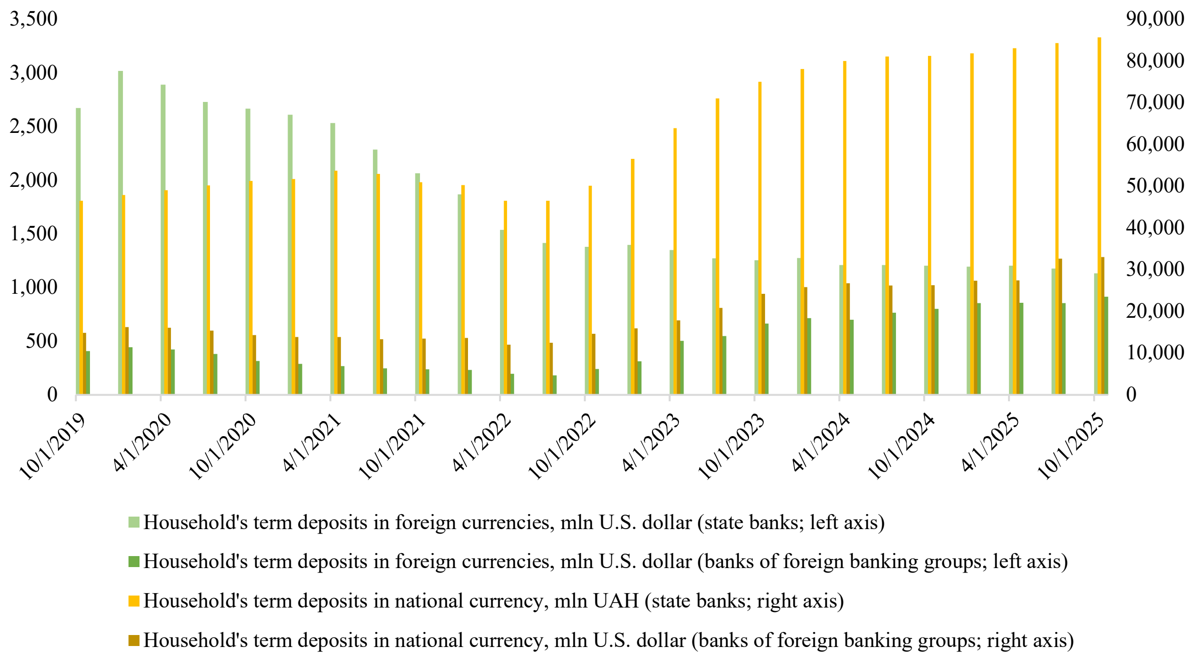
At the same time, although foreign-currency deposits expanded in absolute terms, the level of deposit dollarization remained relatively stable throughout most of the analyzed period. This suggests that the observed changes were driven not by an accelerated shift away from the national currency, but by liquidity-oriented portfolio adjustments within existing currency structures.

3. Competition for the household's deposits among different groups of banks

In recent years, Ukrainians have continued to demonstrate a relatively high level of trust in the banking sector despite ongoing economic and geopolitical challenges. Nevertheless, successive economic shocks have inevitably influenced depositor behavior and reshaped patterns of confidence within the financial system. Surveys conducted by various analytical agencies and financial publications indicate that state banks and banks of foreign banking groups consistently rank as the most trusted institutions for placing household savings [12]. This preference reflects depositors' perceptions of stronger institutional support, higher resilience to shocks, and implicit or explicit guarantees associated with these banking groups, particularly in periods of heightened uncertainty.

However, an analysis of the redistribution of deposits between these two groups of banks reveals clear differences in depositor behavior, which vary depending on external events that generate economic and geopolitical shocks (figure 4).

Figure 4. Trends in the redistribution of term deposits denominated in foreign and national currencies among bank groups in Ukraine from October 2019 to October 2025



Source: compiled by the author based on data of National Bank of Ukraine [8].

Figure 4 demonstrates a pronounced redistribution of household term deposits between state-owned banks and banks of foreign banking groups, as well as between foreign-currency and national-currency instruments, reflecting depositors' adaptive responses to successive economic and geopolitical shocks. During periods of heightened uncertainty, there is a noticeable contraction of term deposits in foreign currency, particularly within banks of foreign banking groups, alongside a relative reallocation toward state-owned banks. This pattern is consistent with a «flight to safety», whereby households prefer institutions perceived as benefiting from stronger state backing and higher systemic resilience []. At the same time, the gradual recovery and expansion of term deposits denominated in the national currency, especially in state-owned banks, indicate a partial reversal of currency substitution, suggesting increased confidence in the domestic currency framework and monetary stabilization measures over time.

Overall, the observed trends highlight that depositor behavior in Ukraine is highly sensitive to external shocks, with bank ownership structure and currency denomination jointly shaping the redistribution of household savings.

Conclusions

The analysis of structural shifts in Ukraine's household deposit market over the period 2019-2025 demonstrates that depositor behavior is highly sensitive to economic, financial, and geopolitical shocks. The findings confirm a pronounced reorientation of household savings toward more liquid instruments, manifested in the sustained growth of demand deposits and a persistent decline in the relative role of term deposits. This shift reflects a classical flight to liquidity, as households increasingly prioritize immediate access to funds under conditions of heightened uncertainty. At the same time, despite significant exchange rate volatility and repeated external shocks, the level of deposit dollarization remained relatively stable throughout most of the analyzed period. Although foreign-currency deposits expanded in absolute terms, this growth was largely driven by demand deposits rather than long-term placements. Consequently, the evidence suggests that currency substitution did not intensify proportionally, and liquidity considerations played a more decisive role than currency preferences in shaping household deposit portfolios.

The study also reveals important differences in deposit allocation across banking groups. State-owned banks and banks of foreign banking groups emerged as the primary recipients of household savings, reflecting higher levels of depositor trust and perceived institutional resilience. During periods of acute stress, households tended to reallocate term deposits toward state-owned banks, particularly in the national currency, indicating a flight to safety supported by explicit state guarantees and stabilization measures implemented by the National Bank of Ukraine and the Deposit Guarantee Fund.

Overall, the observed structural shifts underscore the increasing volatility of bank funding driven by the dominance of highly liquid household deposits. While policy interventions have successfully mitigated excessive dollarization and preserved confidence in the banking system, the declining maturity of deposits poses challenges for long-term lending and financial stability. These findings highlight the need for policies aimed at strengthening incentives for term deposit placement and reducing liquidity-related vulnerabilities in the Ukrainian banking system.

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